CHAPTER 4
THE CONCEPT OF PUBLIC VALUE – SELECTED ECONOMIC PROBLEMS

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Introduction

The connection between the theory of public sector management and economics is strong, albeit not always openly expressed. In this respect, issues that present themselves for discussion include the valuation of the public sector product, costs of public sector operations or establishing action objectives. These are the matters to which this paper is devoted. It is especially concerned with economic problems that emerge in connection with the concept of public value. It is a relatively new idea in the theory of public sector management (Alford and O'Flynn, 2009; Talbot, 2009), dating from the publication of M.H. Moore's book *Creating Public Value* (Moore, 1995). Its influence on the theory of the public sector management is relatively weak. A review article from 2011 (Williams and Shearer, 2011) counted approximately 80 publications that raise this issue, which is a small number compared to the number of works on *New Public Management* or *Public Governance*.

The concept of public value has the advantage of expressing explicitly the opinion about the manager's action objectives in the public sector. Using it as an example, it is possible to discuss economic problems connected with setting action objectives in the public sector as well as certain related issues. Therefore, the objective of this study is not an analysis of the concept of public value from the perspective of public management, but a presentation of underlying economic problems of its premises and often imprecise phrasing. The thesis of this paper is a claim that the concept of public value cannot be reconciled with the neoclassical paradigm in economics.

What is public value?

In Creating Public Value (Moore, 1995), the author explicitly distinguished between the two values that entities maximise – private value and public value. The notion of public value serves Moore as a criterion to assess public sector managers' performance and is analogous to the notion of private value. The ultimate measure of the performance of public sector managers is supposed to be the achieved public value. However, *Creating Public Value* is not entirely clear on defining public value and at least two basic understandings of the term can be distinguished.

Initially, Moore introduces the concept through the analogy to private value, understood as the sales value of products over the cost of their production. In this view, public value is the effect of the production of goods and services of the public sector, reduced by the cost of their production. To calculate public value, it is therefore necessary to know the side of costs and value of what has been produced. While the side of costs does not raise many doubts, the problem we encounter is the difficulty in valuating the production of the public sector. In Moore's view, such valuation is difficult due to the lack of independence of the recipients of public sector services. What it entails is the fact that decisions in this sector are made by the authorities on behalf of citizens, and financed by compulsory taxes. Meanwhile, independence – which we encounter on the free market – means that consumers make purchase decisions on their own, based on their own income and preferences. This lack of independence leads to disturbing the relationship between people's preferences and decisions about the size and structure of public sector spending. Since consumers of public services are not independent, it is impossible to ascribe value to the public sector production. It is worthy of note that this outlook is different from the standard view adopted in economics, where to explain difficulties in the valuation of the public sector production, we refer to physical aspects of public goods (non-rival and non-excludable) that prevent the emergence of markets.

Moore solves this problem on the basis of the observation that in a sense, citizen's decisions are, after all, voluntary, as they are made in the course of a democratic process. But "voluntarily" does not mean "individually", as according to the author of *Creating Public Value,* this is how (i.e. within a democratic process) a collective entity is created. *"It is the only way we know how to create a 'we' from a collection of free individuals"* (Moore, 1995 p. 30). As this collective entity was created through citizens' voluntary decisions, it can legitimately decide about the use of available resources. It follows that it is possible for it to determine the value of services provided by the state. Interestingly enough, thus we move to another understanding of public value – as a net surplus of the aforementioned collective entity. Based on Moore's text, it is difficult to determine which of the presented ways of understanding public value is more important and what the relations between them are (Musialik & Musialik, 2015).

The problem of public value entity

The definition of public value refers us to the question of who or what is the subject of this value, i.e. for whom public value constitutes worth, and who makes the decision to strive after this value. The aforementioned concept of the collective entity would suggest that it is the proper subject of public value. However, this conjecture does not move us further in the understanding of the discussed issue, as neither Moore's nor his followers' texts settle the matter of how this collective entity should be understood. In *Creating Public Value,* we can find at least three definitions of this notion. Firstly, it is a collective being existing independently of the members of the community. Secondly, a group of certain members of the community, in particular the politicians who are the recipients of actions taken by public sector managers. Thirdly, a collective entity is a kind of shortcut for techniques of transitioning from the preferences of individual community members to collective decisions (Musialik & Musialik, 2013).

One thing is certain, however – the notion of public value entity has strong collectivist connotations, because action objectives of public sector managers are set in a collective political process. Both Moore and many later authors put great emphasis on that point. This process must ensure the most accurate possible adaptation of what is collectively decided to individual preferences. It is the key aspect of the concept of public value, as full participation of subjects in the determination of action objectives of the public sector is a condition of subjects' independence, which, in turn, is the necessary condition for creating public value.

In conclusion, it is noteworthy that this collective "we", at least within the first understanding, is something entirely different from the entity whose behaviours are the object of description and explanation in neoclassical economics. Economic methodological individualism is juxtaposed to collectivism, perhaps not entirely defined, yet remaining in stark opposition to the assumption that the point of departure in the analysis of social and economic reality is an individual entity.

The issue of deciphering and aggregation of preferences

As early as 2002, Kelly, Mulgan and Muers (Kelly, Mulgan & Muers, 2002), expanded the notion of public value, following the Moore's second intuition. They claim that in the public sphere, public value can be understood as value of services provided by public sector organisations, legal regulations, and all other actions taken by the government, reduced by the cost related to their production. The authors found an interesting way to solve the problem of measuring public value. More or less explicitly they state that it is made within the decision-making process, whose object is the provision of public services and production of public goods. If citizens are willing to make sacrifices, financial and others, in order to cause certain actions in the public sphere, then by definition these actions have public value. Instead of a measurement made before the decision is taken, here the measurement is made during the decision-making process. From this point of view, citizens' preferences with regard to public goods and services are essential – as they are the factor influencing the decisions made. According to the cited authors, preferences are to be in some way deciphered and aggregated. Unfortunately, in their paper, the question of potential ways of deciphering is not systematically analysed; these are supposed to include e.g. statistical methods and media participation. Later works elaborate rather on the issue of public value measurement. This is made in various ways, including outlining the technical details of such a process (see for instance: Cowling, 2006; Hills, Sullivan, 2006; Mulgan, 2011).

However, we should mention that the quest for methods to decipher preferences stems from a deep conviction about the deficiency of the traditional political process that consists of decision-making executed by politicians elected in elections. It is an important thread, differentiating the concept of public value from the traditional management model, as well as new public management. In these older concepts, the objectives of public sector managers were supposed to be simply assigned by politicians, while the public sector was to be subsequently accountable for its execution. Meanwhile, it seems that theoreticians of public value, operating on the normative level, see the need for a direct connection of citizens and public sector institutions, so as to ultimately respond to the expectations of the former. As a matter of fact, this brings forth a very important question from the perspective of public management: a question about relationships between its managers and the political sphere (Rhodes, Wanna, 2007; Alford, 2008; Hartley, Alford & Hughes, 2015; Mintrom & Luetjens, 2015).

A separate issue, connected with the problem of deciphering preferences, is shifting from individual preferences to social decisions. It seems that this question is not regarded by the theoreticians of value as a problem. They focus on the political process of deciphering preferences (in a broader sense than it is traditionally understood), while the question whether a social decision can meet the requirements of cohesion and rationality is entirely disregarded. Therefore, they pass over important economic findings made by Arrow (1963), who questions the possibility of taking coherent social decisions.

The issue of multiplicity of public values

Regardless of the ambiguities in *Creating Public Value*, it is certain that Moore distinguishes private value from public value, and what follows, there are at least two values within his concept that are the objective of entities' actions.

Benington goes further (Benington, 2009); firstly, he clearly differentiates between public value and individual satisfaction, and secondly, he distinguishes various kinds, or aspects of public value:

- environmental value,
- political value,
- economic value,
- social and cultural value,
- public satisfaction.

The description of the world of values made by Benington is more complex than what Moore proposes. Public value itself is not homogenous, as evidenced by the list above. Especially interesting is the fact that the author mentions public satisfaction. We can guess that he replicated the idea abandoned by economics, of measuring welfare as a sum of individual satisfactions. Although it is not expressed explicitly, Benington's concept seems to be based on the opposition of individual satisfaction and complex public value. It follows that it implicitly assumes the existence within the entity – whether it is understood individualistically of collectivistically – of separate individual and public preferences.

Van der Wal and van Hout go even further (van der Wal & van Hout, 2009). They claim that there are multiple public values which are grouped by public sphere entities in sets that serve as a basis for their actions. Moreover, these sets are usually different for each entity, and often lack internal coherence. It is clearly divergent from Moore's initial concept which firstly has economic connotations – public value is modelled after consumer surplus, and secondly – there is only one. The idea of van der Wal and van Hout can be called the concept of heterogeneous public value.

All variants of the public value concept presented above are pluralistic, because they always include at least two values – public and private. When it comes to the pluralism of values, which is the key feature of the public value concept, a considerable theoretical problem appears, namely: inconsistency of thus described preferences of entities with the standard economic consumer theory that explains people's choices. According to this concept, the level of the so-called utility of a given person can indeed be interpreted purely instrumentally, but it leaves no possibility for differentiating between separate private and public preferences. Mainstream economics assumes that preferences are described with a single utility function, and that there is a single ordering of bundles of goods that fulfils the condition of coherency, i.e. consistency, transitivity, and reflexivity. The level of a given person's utility may depend on other people's bundles of goods or the level of public goods' production, however, it is a single utility. Meanwhile, theoreticians of public value use the notions of private and public preferences differently – as if for the entity (whether it is understood individualistically of collectivistically), there existed two types of advantages – individual and public.

The inconsistency with the theory of economics itself seems to be a sufficiently acute problem – more on this subject below – but the problem is much deeper. Because we expect every reasonable theory concerning human behaviour to be able to explain their choices, or at least to assume such explanations can be provided by other sciences. The economic consumer theory, so in fact, a theory explaining human choices, may have numerous flaws, but it is a cohesive theoretical device that constitutes a base for the remaining part of economics and other sciences. The concept of public value silently rejects this device, without offering anything in its place. A mere statement that people are motivated by various values and not only economic utility, opens up the field for inquiries rather than closes the discussion. Because an important question appears: how people choose various bundles of goods, or more broadly, in a situation where they are motivated by different values?

It is not a completely unstudied subject. On the margins of the economic consumer theory, there is an ongoing debate about the so-called multiple-utility concepts. Within this discussion, the supporters of the concept of multiple utility give two kinds of answers to this question. The first one states that it is possible to indicate a particular meta-ordering of values that allows the decision-making mechanism to function. A good example of that is Thaler's and Shefrin's concept concerning the intertemporal choice (Thaler and Shefrin, 1981). The other one claims that a kind of "balancing act" occurs between values. This type of concepts is represented by the works of Margolis (Margolis, 1982), or Etzioni (Etzioni, 1988). Both answers are facing criticism, because as opponents of multiple-utility note, they in fact reduce the world of values to a single value, which is a return to the neoclassical concept. In the first case it is meta-value, founding meta-preferences. In the second one, it is claimed that the description of the mechanism of balancing assumes the equivalence of values in terms of a particular trait, and therefore it also reduces the world of values to a single principal value. The result of the aforementioned discussion notwithstanding, it needs to be acknowledged that its key premise – concerning the multiplicity of values and preferences – puts it beyond the framework of mainstream economics that is based on monism of utility, or the ordering of bundles of goods.

Summary – the problem of the assumed paradigm

New public management seems to be based on economic principles stemming from the neoclassical paradigm (O'Flynn, 2007; Musialik, 2015). The concept of new public management, which is a normative proposition explaining how to manage the public sector, is based on the following economic theories: public choice theory (challenging the effectiveness of public sector actions), agency theory, transaction cost theory, and competition theory. We can add to that the key premises derived from economics: about the rationality of entities operating in the public sector, and individualism (Bozeman, 2007). Since from the perspective of methodology, the unification of various theories is a demand made toward science, then new public management, which is built upon mainstream economics and cohesive with the current economic paradigm, fulfils this requirement in full.

Meanwhile, it is easy to notice that the concept of public value which was intended by its creators as an alternative to new public management, is in many points contradictory to the neoclassical paradigm, or it adopts statements that cannot be proven on the grounds of this paradigm. Let us present some of them, without making any claims as to the completeness of the list below.

1. The definition of public value (public values), as separate from private value is contradictory with the monism of mainstream economics.
2. There is no description of the mechanism of selection of an entity motivated by multiple goals.
3. More or less explicitly, studies elaborating on the idea of public value feature a collective entity.
4. The source of the inability to valuate public sector services is not the nature of the produced goods, but the lack of consumers' independence.
5. Without sufficient evidence, the possibility of adequate deciphering and aggregation of entities' preferences is assumed (shifting from individual preferences to social decisions).

The concept of public value seems to be devoid of foundations. Moreover, some of its assumptions engender questions that do not have answers; and this last issue is crucial. It is because the contradiction, or lack of cohesion with the current economic paradigm is not in itself disqualifying. Nevertheless, a lack of an answer to important questions, including the one about the mechanism of making choices by the subjects of decisions, is a serious deficiency.

Public management studies are applied sciences and as such, they will always need background knowledge. It follows that if one wants – like the supporters of the public value concept who even claim that it is the new paradigm in public management (Stoker, 2006) – a complete rejection of the new public management paradigm, they must wait for the change of the current economic paradigm. If we are to reject the neoclassical paradigm, we need something in its place.

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